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SUBJECT: PM TOPOLANEK TALKS ECONOMY DURING JANUARY 28

MEETING WITH U.S., EUROPEAN CHAMBERS OF COMMERCE

REF: A. PRAGUE 59

[1](#)B. FEBRUARY 2

[1](#)C. 2009 PRAGUE DAILY

(U) This cable is sensitive but unclassified. Please protect accordingly.

[1](#)1. (SBU) Summary: In a January 28 meeting with the heads of American and five European chambers of commerce, an engaged Prime Minister Topolanek spoke energetically about the economic slowdown and possible Czech government responses. The PM repeated his government's promise to set a target date for Euro adoption in November, but did not say what that date would be. The PM was worried about the Czech Republic's current economic slowdown, but was also concerned about doing anything that might significantly increase the budget deficit and seemed to rule out any large fiscal stimulus plan. Instead, he focused on privatizing Prague's airport and getting EU matching funds to expand public transport. End Summary.

PM Appears Engaged on the Economy

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[1](#)2. (SBU) According to American Chamber of Commerce Executive Director Weston Stacey, the PM appeared fully engaged on economic matters and appeared to recognize the Czech Republic's current economic difficulties. (Note: While the Czech financial system remains relatively healthy, the small, open export-oriented Czech economy is suffering from a significant drop in external demand for its products. As much as 80 percent of Czech production is exported abroad. Over 80 percent of exports go to fellow EU members (30 percent of total exports go to Germany alone). Many analysts are now predicting that the Czech economy will stagnate in 2009 or possibly even contract: see ref A. End note.) The PM opened by saying that his goal is to make certain that the Czech Republic does not end up in the same economic situation "as Latvia." Stacey and the other chamber heads emphasized that the Czech Republic would not feel the secondary effects of economic slowdown -- loan defaults, business bankruptcies -- until later this year, a point Stacey believes the PM had not yet fully grasped.

No Firm Date for Euro Adoption

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[1](#)3. (SBU) The chamber heads told PM Topolanek that the government faces two choices: either adoption of the Euro or implement a large stimulus program. Stacey said the PM appeared focused on not increasing the government's budget deficit, a stance Weston characterized as leaning toward Euro adoption. PM Topolanek said, as his government has before, that he would announce a target date for Euro adoption only in November. He did not say what the target date would be, although, according to Stacey, the PM joked that 2019 would

be the hundredth anniversary of the Czech crown.

PM Focuses on Deficits, Airport, Public Transport

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¶4. (SBU) The PM agreed on the need to get capital into the hands of small and medium enterprises and said his government is examining ways to accomplish that, but offered no ideas for a large fiscal stimulus plan. He said eighty percent of what could be done is in the hands of the Czech National Bank.

¶5. (SBU) Instead, the PM was single-minded about plans to privatize Prague's airport, coming back to the topic several times. Topolanek accepted that privatization in the current market would net the government less than it might at a later time, but feels that the government's current need for cash outweighs the gains from a later higher price. He noted that sovereign wealth funds are making the best offers, but warned that "you can never tell what the source of the money is." The PM also mentioned plans to greatly expand Prague's metro system to outlying areas, including with EU structural funds.

The PM said that regional governors should also work on getting EU structural funds for the expansion of public transportation systems.

¶6. (SBU) The chamber heads offered to help Topolanek's new National Economic Council. (Note: the Council was established in early January to advise the government on how best to respond to the economic slowdown: see ref A). Stacey thinks that the Council has so far poorly served the PM. Stacey noted that the Council had passed the PM an

PRAGUE 00000065 002 OF 002

undifferentiated smorgasbord of over 250 proposals to fix the economy, instead of functioning like a true advisory board and submitting a short list of what they think are the best proposals. Stacey blamed this on Council members' nervousness about taking responsibility for potential mistakes. The PM also accepted that with bankruptcies rising, judges would need to better understand the Czech Republic's new bankruptcy law.

¶7. (SBU) Stacey said that PM Topolanek, normally tepid on the EU, seemed to accept that the EU could have a positive influence through creating rules everyone abides by. The PM told the assembled chamber heads that he would like to have changed the Czech Republic's EU presidency slogan from "Europe Without Borders" to "Europe Without Borders - But With Rules."

¶8. (SBU) Comment: Stacey and the others were impressed by Topolanek's energy and level of engagement on the economy. Although there were two advisors present, the PM did all of the talking on the Czech side. The PM spent over an hour with the group in this first-ever meeting. Finance Minister Kalousek's almost single-minded focus on fiscal discipline appears to have rubbed off on Topolanek. Finance Minister Kalousek has stressed publicly several times that as long as he is minister he will do everything in his power to prevent a significant increase in the Czech national debt and has criticized other EU states for failing to keep their budget deficits within the 3 percent level prescribed by the Stability and Growth Pact (and Maastricht Criteria for Euro adoption). The Finance Ministry is now forecasting the Czech budget deficit to grow to 3 percent of GDP in 2009 under EU accounting rules (ref b), based on the rosy assumption of 1.4 percent growth. If growth stagnates or even contracts, as many analysts are now predicting, the budget deficit will be even greater. Kalousek also appears to believe that in a country where 80 percent of its production is exported and 75 percent of consumer goods are imported, a domestic stimulus program will do little to help the Czech economy. Instead, the government is likely to enact some more modest measures such as increasing depreciation and allowing businesses to receive back the VAT on the purchase of new vehicles. End

Comment.  
Thompson-Jones